THE BOUTIQUE ADVANTAGE

In Small Cap Portfolio Management

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While boutique investment firms may not have the depth of resources available to their mammoth counterparts, they make more efficient use of those they do have and implement a dedicated focus to their strategies and client relationships. When it comes to managing small cap portfolios, many experienced institutional investors prefer the agility and specialized approach of smaller boutique firms for a variety of reasons.

Here are the most common:

1. **Deep Specialization:**
   - **Boutiques:** With a concentrated focus, boutique firms often have teams that specialize exclusively in the small cap sector. This means they dedicate all their resources, time, and research towards understanding every nuance of this segment.
   - **Mega Firms:** Larger firms might be spread too thin, managing multiple strategies across different asset classes. Their small cap team could be just one of many competing internally for research resources and attention.

2. **Alignment of Interests:**
   - **Boutiques:** Many boutique firm professionals have their own money invested in the same strategies, ensuring 'skin in the game.' In addition, equity ownership and management decision making are also incentives and positive motivators that differentiate from their larger counterparts.
   - **Mega Firms:** Large institutions might face multiple conflicts of interest, particularly if they are part of a bigger financial conglomerate with several lines of business.

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3. **Flexibility and Responsiveness:**
   - **Boutiques:** Smaller teams can adapt quickly to market changes. Their nimble structure allows for swift decision-making, essential in the volatile world of small cap investments.
   - **Mega Firms:** The sheer size and bureaucracy in larger firms might slow down the decision-making process. By the time a decision is reached, the optimal investment window could have passed.

4. **Capacity Concerns:**
   - **Boutiques that "Close their Strategy":** Some boutique firms limit the amount of capital they manage in a particular strategy. By closing a strategy once it reaches its capacity, they ensure that they can still operate effectively and take advantage of opportunities without being bogged down by too much capital.
   - **Asset Gathering Mega Firms:** Large firms often prioritize asset accumulation. The more assets they have under management, the more fees they collect. This can lead to diluted returns as managers might be forced to deploy capital even when there are not compelling opportunities or promote style drift to accommodate larger asset flows.

5. **Personalized Client Relationship:**

- **Boutiques:** With a smaller clientele, boutiques can offer a personalized relationship. Clients have better access to portfolio managers, leading to transparent and open communication.
- **Mega Firms:** Due to their vast client base, larger firms might offer a more impersonal service, with clients often communicating through layers of relationship managers and rarely getting facetime with those directly managing their investments.

"...With a smaller clientele, boutiques can offer a personalized relationship...."

6. **Culture and Passion:**

- **Boutiques:** These firms often foster a culture of passion for investing. Employees are there because they love the art and science of investment management. This enthusiasm can translate into a deeper commitment to research and finding the best opportunities.
- **Mega Firms:** In bigger organizations, the culture might lean more towards corporate objectives and key performance indicators (KPI) rather than a genuine passion for the craft.

Conclusion

While large global firms have their merits and can offer certain advantages due to their scale, when it comes to managing small cap portfolios, the specialized, nimble, and client-centric approach of boutique firms often stands out. The key for experienced institutional investors is to recognize the different strengths of each and choose the best fit for their specific needs.

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